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CENTRAL INTELLIGENCE AGENCY

31 October 1957

MEMORANDUM FOR THE DIRECTOR OF CENTRAL INTELLIGENCE

SUBJECT: The Outlook in Argentina

Summary

1. In NIE 91-56 (The Outlook for Argentina, 17 July 1956) we concluded that the chances for an orderly transfer of power from the military regime in Argentina to a constitutional government, scheduled for May 1958, were "slightly better than even." In view of the continued deterioration of the political and economic situation since that time, we believe that the transfer of power to an elected government, as scheduled, is considerably less likely. In any event, the economic situation seems likely to get worse and would be a cause for concern even if the political situation were stable.

Discussion

2. The Political Situation. An increasing number of difficult political problems confront the present regime as it prepares for a return to constitutional government. The July

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Constituent Assembly elections failed to assure the government that the Peoples' Radical Civic Union (UCRP), the moderate left-of-center party to which it would be willing to transfer power, would win the February 1958 general elections. \* Moreover, political party leadership does not appear sufficiently concerned with, or capable of handling, the difficult economic and political situation which will face a successor government. Although the failure of the recent Constituent Assembly to make substantial reforms in the Constitution of 1853 does not preclude transfer of power to an elected government, it does illustrate the inability of civilian politicians to work together in the national interest. Furthermore, divisions within the two leading parties are contributing to general uncertainty about the electoral outcome and the

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* <u>Constituent Assembly Election Results:</u>		<u>% of total vote</u>
<u>Pro-Government:</u>		
	Peoples Radical Civic Union (UCRP)	25
	Minority Parties	25 (est.)
<u>Opposition:</u>		
	Intransigent Radical Civic Union (Erdndizi-led UCRI)	21.5
	Minority Parties	3.5 (est.)
	<u>Blank Vote</u> (largely Peronist-inspired)	25

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capabilities of either to head a viable successor government. The UCRP is made up of factions united principally by their opposition to leftist Arturo Frondizi, leader of the Intransigent Radical Party (UCRI) who has made the strongest bid for Peronist support. The UCRI is divided between leftist elements and members of more moderate orientation who might defect to the UCRP should Frondizi obtain Peronist support.

3. The Economic Situation. The Aramburu regime has had scant success in trying to overcome its serious economic problems. Agricultural production for export has decreased. The service sector of the economy has witnessed little significant development, and foreign private investment has increased only slightly. Argentina's financial position shows little improvement, although the government has reduced its anticipated 1957 balance of payments deficit from \$210 million to \$75 million, principally by seeking extensive credits. Dollar reserves have dropped substantially and now amount to only about \$38 million. The government has already had to dip heavily into its gold reserves, now reduced to \$156 million. Thus, the regime will leave a legacy of heavy debt and depleted reserves to any successor government.

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4. In recent months serious domestic inflation has virtually wiped out benefits from 1956 wage increases and brought intensified pressures from labor groups for wage boosts. In its attempt to restrain inflationary tendencies, the regime froze wages through December 1957, and granted labor only fringe benefits. General labor dissatisfaction erupted in September in the form of a Peronist-dominated 24 hour general strike. The government's efforts to control further demonstrations met substantial labor resistance. Subsequently, a Peronist-instigated 48 hour general strike on 22 October had a measure of success. Labor unrest is likely to increase in the face of the government's continued refusal to grant desired wage boosts, which would aggravate inflation and the foreign trade imbalance.

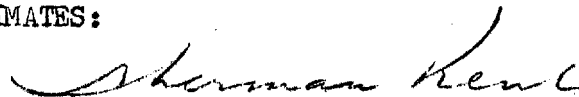
5. The Attitude of the Military. The survival of the present regime, and thus any attempt to hold to the present plan for transferring power to an elected government, still depends upon the position of the armed forces. Although there is a small group of rightists which favors postponement of elections and continuance of the military in power, the majority of the military still appear to favor general elections as scheduled. However, controversy and division within the military over appointments

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and over the regime's policies are continuous. Reports and rumors of projected coups and counter-coups have recently increased. We believe that the resolve of certain powerful military elements to permit transfer of power has been weakened by dissatisfaction with the current situation and fear that an acceptable and effective successor government will not emerge.

6. Prospects for Transfer of Power. The current regime under General Aramburu still intends to hold elections in February and to relinquish its power in May 1958. There is still some chance that continuing division within the military as well as popular sentiment for elections will enable Aramburu to carry out his political plans. However, we feel it is more likely that military elements will become increasingly concerned over the apparent ineptitude of civilian leadership, over the uncertainty of the electoral outcome, over the deteriorating economic situation, and particularly over labor unrest and Peronist subversive activity. We cannot predict whether the present regime will change its plans, or whether it will be overthrown or reconstituted, but we do feel that, in view of the mounting obstacles to the development of a stable and healthy situation, a postponement of, or a fundamental change in present plans will probably occur.

FOR THE BOARD OF NATIONAL ESTIMATES:



SHERMAN KENT  
Assistant Director  
National Estimates